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Flextronics Jump Starts Integration of Solectron

Restructuring moves made quickly

Flextronics wasted no time in right-sizing the combined operations that resulted from its Oct. 1 acquisition of **Solectron**. In the first two weeks after closing, Flextronics initiated most of the actions required by its plan to shut down or sell 19 service and manufacturing locations. In addition to eliminating about 11,050 manufacturing jobs, the company also intended to cut some 350 design/engineering positions and about 1,100 staff jobs. About five weeks into the integration process at Flextronics Analyst and Investor Meeting on Nov. 6, the company said 90% of the plant rationalization is underway, and 90% of personnel notifications have been made. Plant and SG&A reductions are big contributors to the acquisition's ballyhooed synergies. With these reductions on the fast track, Flextronics has shortened the timetable for achieving the synergies.

Originally, the company said it would take up to 18 to 24 months to achieve a run rate of at least $200 million a year in after-tax synergies (June, p. 1). In July, Flextronics reduced the time to reach full the run rate to 12 to 18 months. Now the company expects to realize a full range of synergies in six months. Not only that, Flextronics has changed its outlook from $200 million in expected synergies to more than $200 million. The timetable for EPS accretion has shrunk as well. Flextronics originally estimated 15% accretion once synergies were fully realized in the 18- to 24-month time frame first projected. This accretion "is coming in much faster than expected," said Flextronics CFO Tom Smach during the analyst and investor meeting held this month.

Flextronics is closing or selling five facilities in Asia, six in the Americas, and eight in Europe. Closures and any sales will be completed over six months.

Out of a combined total of 28.3 million ft^2 listed for manufacturing locations, the company is taking out 4.1 million ft^2, or 14%. (It is unclear how much of this reduction is manufacturing versus service/logistics.) Europe will see the largest space reduction both in absolute numbers and on percentage basis. Flextronics is removing 1.8 million ft^2 of European facilities, which equates to 32% of the region's total. In the Americas, the company is eliminating 1.4 million ft^2, or 15% of space in the region, while Asia Pacific, not surprisingly, will only lose 7% of its total space (Table 1).

Table 1: Manufacturing Rationalization Plan

	Flextronics	Solectron	Total	Closures	Net
Americas	3,700	5,400	9,100	(1,400)	7,700
Europe	3,500	2,100	5,600	(1,800)	3,800
APAC	10,400	3,200	13,600	(900)	12,700
Total	**17,600**	**10,700**	**28,300**	**(4,100)**	**24,200**

Source: Flextronics

In contrast to the facility space reductions, work force cuts are being split almost equally among the three regions. The Americas and APAC are undergoing reductions of about 4,000 and 4,100 people respectively. Europe is losing approximately 4,400, but its 9% drop again is largest among the regions. Total headcount of the newly combined company is decreasing to

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Table 2: Global Employees			
	Total	Reductions	Net
Americas	53,400	4,000	49,400
Europe	47,100	4,400	42,700
APAC	104,500	4,100	100,400
Total	**205,000**	**12,500**	**192,500**
Source: Flextronics			

about 192,500 from some 205,000 (Table 2). That's a reduction of 6% overall.

Flextronics had about 150,000 employees before closing the Solectron deal and will end up with less than 200,000 after restructuring. The company uses this and other statistics to show that the integration of Solectron is not as complicated as it looks. For example, Solectron added 23 manufacturing sites. But after Flextronics and Solectron facilities are eliminated and co-located facilities are factored in, Flextronics will have a net gain of just three new manufacturing sites to manage (Table 3). The net increase in the number of logistics sites will also be three, as will the number of new countries in Flextronics' manufacturing and logistics network.

The company believes that the cash required for restructuring activities will be in the range of $500 million to $550 million, to be paid over the next 12 months. This cash requirement covers both Flextronics' restructuring and certain purchase accounting and balance sheet adjustments made for Solectron. Largely offsetting this negative cash flow will be $475 million in cash savings that Flextronics expects to generate by shortening Solectron's cash conversion cycle by 14 days. (These savings are based on Solectron's quarter ended Mar. 2 and Flextronics' quarter ended Mar. 31.)

Operating charges for restructuring will amount to between $430 million and $500 million, including $220 million to $250 million for non-cash asset impairment, Flextronics estimates. Note that the cash component of these operating charges is much less than the total cash requirement of $500 million to $550 million.

By initiating facility closures at the outset, Flextronics aims to avoid the repeated restructuring that has plagued some providers. "We are not going to be a chronic restructurer," said CEO Mike McNamara at the analyst and investor meeting.

Although 90% of the plant rationalization activity has begun, so far Flextronics has publicly disclosed only one plant to be shut down. That facility is located in Canéjan, near Bordeaux, France. Media reports have variously identified for closure sites in Montreal, Canada; Istanbul, Turkey; and Youngsville, NC, and Wilmington, MA, in the U.S. (Oct., p. 5). Also, a small activity in Northern Ireland is slated for closure, according to *evertiq.com.* (Another plant closure in France was reportedly initiated before the Solectron deal closed.)

Among the Solectron employees not retained by Flextronics were eight of the nine executives directly reporting to Paul Tufano, Solectron's interim CEO. The only executive in this group taken by Flextronics was Marty Neese, Solectron's executive VP of operations, who is now running Flextronics' large campuses and worldwide operations.

Adding Solectron's after-market services business will more than double Flextronics' revenue in that area. With Solectron, the size of Flextronics' services business jumps to over $1.4 billion. What's more, Solectron gives Flextronics a field services capability that the company has split off into a new unit called Retail Technical Services.

But Solectron's after-market services business also comes with some baggage. For Solectron's last reported quarter ended June 1, the company reported that its services group continued to have execution issues. Solectron attributed a gross margin decline from the prior quarter to execution and supply chain issues in a part of its services business.

Flextronics plans to raise gross margins of this business so that they cross over EMS levels within three quarters, McNamara told analysts and investors. To achieve this target, he cited factory closures, overhead reduction, aggressive management, and "maybe a couple of customer tweaks." By splitting off the field services unit, Flextronics can treat Solectron's services group the same as Flextronics' own services unit, which, according to McNamara, runs well.

"I think service [at Solectron] was a lot more broke [sic] than…we originally anticipated," said McNamara during the analyst and investor meeting. But he added that fundamentally Flextronics wasn't "surprised by anything we really found at Solectron, except maybe service being a little bit bad and IT being a little bit more challenging. But even IT we knew was going to be challenging."

Solectron runs a good number of ERP systems rather than a single platform (June, p. 4). McNamara described a "very complicated web of computer systems," and Flextronics plans to simplify that structure through a two-year process.

Still, McNamara said he thought that Solectron's "factories were on average in real good shape," based on

Table 3: Integration Statistics			
Category	Flextronics	Solectron	After restructuring
People	150,000	55,000	<200,000
Manufacturing sites	50	23	53
Logistics sites	12	16	15
Countries*	27	+4	30
Design engineers	3,200	400	3,600
Unique technologies	11	3	11

* With manufacturing and/or logistics. Source: Flextronics

his world tour of Solectron facilities in June. Facilities co-located with Flextronics plants offer synergies such as one factory using the other's excess equipment and the ability to consolidate factory SG&A into regional SG&A. Co-located facilities account for 60% of Solectron's revenue.

In view of acquisition synergies and Solectron margin improvements, Flextronics expects non-GAAP operating margin for the fiscal year ending March 2009 to fall within a guidance range that has a midpoint of 3.8%. That's up from midpoint estimates of 3.3% in the December 2007 quarter and 3.6% in the March 2008 quarter. Solectron integration is projected to add about 30 basis points to non-GAAP operating margin in the March 2008 quarter.

For fiscal 2008, Flextronics expects to post non-GAAP EPS of $0.93 to $0.94, representing an increase of 16% to 18% over the prior year. The company anticipates fiscal 2008 sales of $26.8 billion to $27.5 billion, or growth of 42% to 46%. In fiscal 2009, non-GAAP EPS growth should be more in line with sales growth, according to company guidance. Flextronics predicts that EPS will grow 29% to 38% to a range of $1.20 to $1.30, while sales are expected to rise by 29% to 33%, reaching $34.5 billion to $36.5 billion.

Flextronics' outlook calls for fiscal 2009 cash flow from operations of $1.2 billion at the midpoint of guidance, up from a midpoint estimate of $1 billion for fiscal 2008.

Included in fiscal 2008 and 2009 guidance is revenue leakage that McNamara said is "nothing like a billion and a half [dollars]." This was the number that Flextronics originally modeled in. Leakage will occur if any shared customers move business to reduce exposure to the combined company. Flextronics has identified **Nortel** as one customer that will diversify in order to maintain the two-supplier strategy that it had with Flextronics and Solectron. Revenue loss can also result from facility closures where customers of those factories choose not be moved to other Flextronics facilities. McNamara said he believed that on average Flextronics was above expectations for retaining such customers. Also, in some cases business that would have come out of stand-alone Solectron is now staying put in the combined company. McNamara presented this as an offset to revenue leakage.

World Markets

Czech Plant Brings In Foreign Workers

Last month's article in this section explored the question of whether the labor supply in Central Europe is sufficient. Although several EMS providers in the region did not experience operational problems caused by the labor supply, they did raise some issues: a shortage of qualified workers in Hungary, more effort required to find qualified engineers in Poland, and job hopping in the Czech Republic and Poland (Oct., p. 2). Now comes a report that over 40% of the workers at **Hon Hai's** plant in the Czech Republic come from outside the country.

Of the nearly 6,000 people working at Hon Hai's Czech facility in Pardubice, over 2,500 are foreigners, according to a November article in *Czech Business Weekly,* which cited a union official associated with the plant. *CBW* also reported that since the end of 2006, more than 1,000 workers have been brought in, primarily supplied from Belarus, Bulgaria, Kazakhstan, Romania, Russia, Slovakia, Ukraine and Vietnam by staffing firms. These numbers, if accurate, would indicate a shortage of unskilled labor in the Czech Republic.

The *CBW* article described friction that reportedly has occurred between plant workers of different nationalities.

Market Data

Q3 Results for 12 Largest Providers Worldwide

Combined sales for the world's 12 largest EMS providers increased year over year by double digits both in the third quarter and in the first nine months of 2007. Q3 revenue for the group totaled $27.19 billion, up 13.1% from the year-earlier period, while nine-month sales rose 15.3% to $75.53 billion. The 12 largest providers, all publicly held, consist of seven companies traded in the U.S., four listed in Asia, and one in Europe. As these companies account for a clear majority of EMS industry revenue, such growth rates point to the staying power of outsourcing in the EMS space.

Table 1 on page 4 summarizes Q3 and nine-month GAAP results for the seven U.S.-traded providers, while Table 2 on page 4 covers the Asia- and Europe-listed companies in a similar fashion, but lists results in native reporting currencies. These results are converted to U.S. dollars in Table 3 on page 5. Rolling up U.S.-dollar results from Tables 1 and 3 yields the aforementioned double-digit growth rates.

However, growth rates were uneven among the top dozen providers. Half of them reported Q3 sales declines year over year. And the high growth rate of Hon Hai Precision Industry, the world's largest EMS provider, influenced overall results. Excluding Hon Hai, Q3 sales growth would have dropped to 4.3%, and the nine-month increase would have fallen to 9.1%.

These rates are in line with the aggregate growth for the U.S.-traded providers in both periods (Table 1). Their anemic 3.0% increase in Q3 sales from a year earlier dragged down nine-month growth to 8.1% from 11.0% in the first half of the year. On the bright side, combined GAAP gross

Company (in order of 9-mo. sales)	Q3 '07 sales	Q2 '07 sales	Qtr.-qtr. chg.	Q3 '06 sales	Yr.-yr. chg.	Q3 '07 gross marg.	Q3 '06 gross marg.	Q3 '07 oper. marg.	Q3 '06 oper. marg.	Q3 '07 net inc.	Q2 '07 net inc.	Q3 '06 net inc.	Q1-3 '07 sales	Q1-3 '06 sales	Yr.-yr. chg.	Q1-3 '07 net inc.	Q1-3 '06 net inc.
Flextronics	5,557.1	5,157.0	7.8	4,702.3	18.2	5.6	3.8	2.7*	0.4*	120.9	106.9	184.9	15,390.9	12,292.3	25.2	348.5	312.3
Jabil	3,129.8	3,001.9	4.3	2,953.6	6.0	7.3	6.7	1.6	-0.3	11.7	6.2	(45.6)	9,066.6	7,861.1	15.3	31.8	87.6
Sanmina-SCI	2,505.4	2,488.4	0.7	2,717.3	-7.8	5.1	4.7	-43.4	-0.3	(1,109.1)	(27.6)	(28.1)	7,605.5	8,093.6	-6.0	(1,162.8)	(159.0)
Celestica	2,080.6	1,937.0	7.4	2,392.4	-13.0	5.8	5.6	1.9	-1.1	51.5	24.9	(42.1)	5,859.9	6,549.9	-10.5	(2.0)	(89.8)
Benchmark	672.6	756.3	-11.1	769.5	-12.6	5.8	6.8	2.2	4.5	22.0	25.9	29.3	2,181.4	2,170.0	0.5	72.4	83.4
Plexus	425.7	379.6	12.1	396.9	7.3	12.6	11.3	7.4	6.2	24.9	15.5	42.6	1,165.5	1,132.2	2.9	50.6	86.2
Nam Tai	204.5	197.8	3.4	218.5	-6.4	12.7	10.2	6.8	5.7	12.7	38.8	12.1	593.9	640.5	-7.3	59.9	43.1
Total/avg.	**14,575.7**	**13,918.0**	**4.7**	**14,150.5**	**3.0**	**6.3**	**5.3**	**-5.4**	**0.4**	**(865.4)**	**190.6**	**153.1**	**41,863.7**	**38,739.6**	**8.1**	**(601.6)**	**363.8**

Table 1: Q3 and Nine-Month 2007 GAAP Results for Seven Large EMS Providers, U.S.-Traded (M$ or %)

* Includes intangible amortization.

margin for the U.S.-traded set in Q3 improved by 100 basis points year over year to 6.3%. Quarter-to-quarter sales growth for these U.S.-traded providers was a respectable 4.7% overall.

For some color behind the numbers, here is a brief discussion of each company's performance. Note that for providers listed outside the U.S., percentage changes described below for Q3 (and nine-month) results refer to the providers' reporting currency.

Benchmark Electronics (Angleton, TX). Benchmark was disappointed with its revenue and earnings results for Q3. Revenue for the quarter came in below original guidance for only the third time in the company's history. Benchmark blamed the miss on slower than anticipated product and program transitions as well as softer than projected demand. Non-GAAP EPS (diluted) was $0.24 versus guidance of between $0.38 and $0.42.

Q3 sales declined sequentially in three of Benchmark's five segments. The provider's largest customer, **Sun**, represented 17% of revenue for the quarter, down from 25% in Q2.

But Q3 cash flow from operations amounted to about $66 million, which exceeded expectations. Also, SG&A expenses decreased by 9.2% from Q2. And the company booked 10 new programs during Q3, worth about $100 to $125 million in potential annual revenue and expects bookings to remain strong in Q4. Benchmark foresees sequential increases in both revenue and non-GAAP EPS for Q4.

Cal-Comp Electronics (Bangkok, Thailand). Q3 sales grew 20.6% year over year because of increases in PC peripherals and mobile phone products in both Thailand and China facilities. Gross margin for the quarter rose to 5.91% from 5.56% in the year-ago period due to an increase in ODM products and economies of scale. Cal-Comp's 18.1% increase in Q3 net income nearly kept pace with sales growth.

But for the first nine months, net profits increased faster than sales. Net profits grew at 30.2% from a year earlier, compared with a 22.8% rate for sales.

Cal-Comp is a member of Taiwan's **Kinpo Group**. (This analysis does not include results of Cal-Comp's two sister companies, **Kinpo Electronics** and **Acbel,** that also do EMS work. Cal-Comp is by far the largest EMS provider in the Kinpo Group.)

Celestica (Toronto, Canada). Q3 revenue was up 7% sequentially, and the majority of this increase resulted from seasonal strength in the consumer segment, which grew 37% from the prior quarter. A year-over-year decline of 13% in Q3 revenue was mainly driven by lower volumes from the telecom and enterprise communications markets and customer disengagements primarily in the industrial market. Adjusted EPS for the quarter amounted to $0.13, which was above the high end of guidance but below $0.18 reported for Q3 2006.

Nine months into a turnaround plan, the company showed continued improvement on several fronts. Non-GAAP operating margin for Q3 was 2.3%, up 120 basis points from Q2. Third-quarter inventory turns increased to 8.3 times from 7.3 in the prior quarter. Celestica generated free

Table 2: Q3 2007 and Nine-Month Results for Five Large EMS Providers Listed Outside the U.S.

Company	Home base	Currency	Q3 '07 sales	Q3 '06 sales	Yr.-yr. chg.	Q3 '07 net profit	Q3 '06 net profit	Q1-3 '07 sales	Q1-3 '06 sales	Yr.-yr. chg.	Q1-3 '07 net profit	Q1-3 '06 net profit
Hon Hai*	Taiwan	M NT$	311,238	230,285	35.2	19,873	15,073	821,466	618,453	32.8	51,134	39,289
Elcoteq	Finland	M EUR	1,059.7	1,169.1	-9.4	(6.3)	5.9	2,980.5	3,179.7	-6.3	(73.8)	12.5
Venture	Singapore	M S$	935.9	799.2	17.1	76.3	59.0	2,909.5	2,283.7	27.4	225.7	160.9
Cal-Comp	Thailand	M Baht	26,190	21,722	20.6	959	812	67,232	54,745	22.8	2,287	1,756
USI*	Taiwan	M NT$	8,290	9,083	-8.7	438	367	25,877	27,631	-6.3	1,343	938

* Results are non-consolidated.

Table 3: Q3 2007 and Nine-Month Results Converted to US$ for Five Large EMS Providers

Company	Q3 '07 sales	Q3 '06 sales	Yr.-yr. chg.	Q3 '07 net profit	Q3 '06 net profit	Q1-3 '07 sales	Q1-3 '06 sales	Yr.-yr. chg.	Q1-3 '07 net profit	Q1-3 '06 net profit
Hon Hai*	9,452	7,029	34.5	604	460	24,899	19,090	30.4	1,550	1,213
Elcoteq	1,458	1,489	-2.1	(9)	8	4,008	3,957	1.3	(99)	16
Venture	617	506	22.0	50	37	1,909	1,429	33.6	148	101
Cal-Comp	834	577	44.6	31	22	2,062	1,428	44.4	70	46
USI*	252	277	-9.2	13	11	784	853	-8.0	41	29
Total/avg.	**12,612**	**9,878**	**27.7**	**689**	**538**	**33,662**	**26,757**	**25.8**	**1,710**	**1,404**

* Results are non-consolidated. Currencies were converted to US$ by using three- and nine-month averages based on monthly 2006 and 2007 data from the US Federal Reserve.

cash flow of $206 million in Q3.

The provider also reduced its operating losses in Mexico to $10 million from $21 million in Q2. Operating losses in Europe came to $10 million, a modest decrease of $1 million from Q2.

Elcoteq (Espoo, Finland). Excluding restructuring costs, Q3 operating income returned to positive territory at 1.7 million euros following two quarters of operating losses. Third-quarter sales rose by 9.4% sequentially, but declined 9.4% year over year. Revenue in the quarter fell short of the company's expectations, mainly because mobile phone deliveries to **Nokia** were below forecasts.

Based on Nokia's forecasts, Elcoteq had prepared itself for substantial growth in volumes in 2007. The provider invested and set pricing given this expected growth. But orders fell well short of forecasts, and that is the biggest reason why Elcoteq has suffered since the beginning of the year, said president and CEO Jouni Hartikainen. Other than Nokia, Elcoteq's business has grown 30% for the first nine months of 2007.

Elcoteq has announced a new action plan with three elements: adopting a customer-centric organization model, downsizing unprofitable business operations in 2008, and achieving additional savings in operations.

Flextronics (Singapore). Adjusted net income for the September quarter increased 25% year over year to a record $146 million. Revenue grew 18% from the year-earlier quarter, led by the infrastructure and computing segments with sales increases of 36% and 35% respectively. Coming in a close third was the industrial, automotive, medical and other segment with 29% growth. The company described the overall demand in the September quarter as stable.

In the quarter, the company generated free cash flow of $297 million. Its cash conversion cycle improved by two days sequentially to 11 days, while inventory turns increased to 8.0 times from 7.3 a year earlier. Return on invested capital was 11.2%, up 80 basis points from Q2. Flextronics achieved an adjusted operating margin of 3.1%, a 10 basis-point improvement over the prior quarter.

Flextronics' mobile segment, which would normally be expected to show a seasonal pickup in the September quarter, only grew 2% sequentially. The company attributed this result to customer growth problems more than anything else.

Hon Hai Precision Industry (Tu-Cheng, Taiwan). Like other Taiwan-listed companies, Hon Hai reports non-consolidated results quarterly on a cumulative basis. (Consolidated results only come out twice year – for the first half and full year.) For the first nine months, Hon Hai recorded non-consolidated sales of NT$821.47 billion, up 32.8% from the year-ago period. (These results differ somewhat from figures reported last month on page 7 for same period. Last month's figures were based on cumulative monthly results.)

Subtracting six-month revenue from the nine-month total yields Q3 sales of NT$311.24 billion. That's a sales increase of 35.2% year over year. Non-operating income in the quarter exceeded operating income by 76%. When reporting non-consolidated results, Hon Hai claims its share of earnings from certain Hon Hai-controlled subsidiaries as non-operating income. On a non-consolidated basis, third-quarter operating margin was an EMS-like 2.7%, down from 3.2% a year earlier. But the 2.7% margin did not reflect the operations of those subsidiaries, which boosted operating margin in the first half to 5.6% on a consolidated basis.

Jabil Circuit (St. Petersburg, FL). Revenue for Jabil's August quarter increased 6% year over year, while core operating profit went up 15%. On a sequential basis, sales rose 4%, while core operating income increased 19%. Core operating margin for the quarter was 3.3% versus 3.1% a year earlier. But core earnings, which included substantially higher interest expense than in the year-ago quarter, decreased 19% year over year.

Revenue in four out of seven segments increased in the August quarter from the prior period. The networking sector posted the highest growth rate, 12%, reflecting demand strength from Jabil's largest customer in the sector, **Cisco**. Instrumentation and medical increased at a better than expected 7%.

Cash flow from operations amounted to about $250 million in the quarter. The provider's sales cycle improved sequentially by six days to 19 days.

Jabil expects its recently formed Consumer Division to be relatively flat in fiscal 2008. As for the EMS Division, Jabil anticipates robust growth but not at the 31% rate achieved in fiscal 2007.

Nam Tai Electronics (Macao, China). Q3 sales decreased 6.4% from the year-earlier quarter mainly because of a decline in business from the telecom components assembly segment, which depends on the mobile phone market. One of Nam Tai's indirect customers suffered a substantial drop in sales volume in its mobile devices business in Asia and Europe. As a result, Nam Tai and other participants in the mobile phone supply chain were inevitably affected. The company has reduced its dependence on the mobile segment from well over 80% exposure in Q1 to below 65% in Q3.

Gross margin improved from 9.0% in Q1 to 11.5% in Q2 to 12.7% in Q3. Operating income in the quarter grew 12.1% year over year.

The company estimates that its recently announced reorganization plan will be less than 10% dilutive per year. With this plan, Nam Tai will place its manufacturing businesses, now operating independent of one another, under a single subsidiary (Oct. p. 7).

Plexus (Neenah, WI). Despite September quarter revenues coming in at the low end of guidance, Plexus' earnings exceeded its expectations, driven primarily by a favorable mix of customer programs, better than expected labor efficiencies, and strong performance by the company's engineering services group. Gross margin of 12.6% was above the company's target of 10%.

Revenue in the company's defense, security and aerospace sector went up dramatically in the quarter, but still came in below expectations, as about $15 million of revenue from Plexus' largest defense customer was pushed into the next quarter. This customer, identified by **Bear Stearns** analyst Kevin Kessel as **General Dynamics**, contributed about $44 million in the quarter. Medical was the only sector that showed a sequential decline in sales, but it was less than expected.

ROIC, as Plexus defines it, measured 17.6% for its fiscal year ended September 2007.

The company is targeting revenue growth in the range of 15% to 18% in fiscal year 2008.

Sanmina-SCI (San Jose, CA). Although revenue for the September quarter was flat on a sequential basis and down 7.8% year over year, non-GAAP gross margin improved by about 60 basis points over both intervals to 5.4%. Non-GAAP operating margin for the September quarter stood at 1.7%, up about 50 basis points, both quarter over quarter and year over year.

GAAP earnings took a big hit from a $1.1-billion impairment charge for goodwill. Non-GAAP net income was $10.2 million, compared with net losses of $22.8 million in the prior quarter and $2.1 million in the year-ago quarter.

Sequential growth occurred in two of out of six segments – communications and multimedia.

Inventory turns in the September quarter increased to 8.9 times from 8.4 in the prior period. The cash conversion cycle improved sequentially by 6.8 days to 28.7 days, the lowest since September 2004. Cash flow from operations amounted to $144.9 million.

For the second quarter in a row, the company's enclosure business produced a loss of about $10 million.

Universal Scientific Industrial (Nan-Tou, Taiwan). For the first nine months, USI, a member of the **ASE Group**, recorded non-consolidated sales of NT$25.88 billion, down 6.3% from the year-earlier period. But net income in the first three quarters rose 43.2% year over year.

Q3 sales (as calculated from cumulative totals reported by USI) declined by 8.7% year over year. Although USI showed a Q3 operating loss of NT$86.6 million on a non-consolidated basis, the company generated NT$634.2 million of non-operating income, including income from equity investments. Net income for the quarter came to NT$437.8 million, up 19.2% from the year-ago period. Net margin increased to 5.3% from 4.0% a year earlier.

In Q3, the company landed orders for its WiMAX 16d CPE (customer premises equipment) offerings, and mass production is to begin this quarter.

Venture (Singapore). The company said its Q3 revenue growth of 17.1% year over year could have been stronger were it not for the steep decline in the US dollar and a one-time rationalization of channel inventory by a major customer. On a sequential basis, revenue declined by 6.8%. Q3 net margin was 8.2%, up from 7.4% in the year-ago period. Profit after tax and minority interests improved by 29.4% from a year earlier.

Nine-month sales reached a record S$2.91 billion, up 27.4% year over year. Excluding minority interests, net profit for the period climbed 40.3%.

The company said most, if not all of its customers have awarded Venture first place in their performance ranking.

Assuming that the operating environment remains favorable, the company expects its good performance to continue.

U.S.-Traded Group Projected To Hit Double Digits for 2007

Thanks to a high growth rate for **Flextronics**, the six largest U.S.-traded EMS companies are expected to achieve a collective growth rate in double digits for 2007, according to *MMI* estimates. Adding the midpoint or estimate of each company's Q4 sales guidance to revenue for the first nine months, *MMI* came up with a projected 2007 total of $58.91 billion for the group, up 11.4% from a year earlier (see upper table, p. 7).

Flextronics' estimated sales growth of 34.9% in 2007 far exceeds project-

Q4 Guidance and 2007 Revenue Estimates for Six Large U.S.-Traded Providers (sales in B$ except as noted)								
Company	Q1-3 '07 sales	Q4 guidance	Q4 midpoint	2007 estimated sales	2006 sales	% estimated growth	Q3 EPS Non-GAAP* $	Q4 Guidance Non-GAAP* $
Flextronics	15.39	~8.5	8.5	23.89	17.71	34.9	0.24	~0.26
Jabil	9.07	3.3	3.3	12.37	11.09	11.5	0.29	0.33 - 0.37
Sanmina-SCI	7.61	2.5 - 2.65	2.58	10.19	10.87	-6.3	0.02	0.02 - 0.04
Celestica	5.86	2.0 - 2.15	2.08	7.94	8.81	-9.9	0.13	0.10 - 0.16
Benchmark	2.18	700 - 740 M	0.72	2.90	2.91	-0.3	0.24	0.32 - 0.38
Plexus	1.17	440 - 460 M	0.45	1.62	1.51	7.3	0.55	0.58 - 0.63
Total/avg.				**58.91**	**52.90**	**11.4**		

2007 estimates equal Q1-3 actual sales plus midpoint of Q4 guidance.
* Non-GAAP EPS may not be comparable from company to company.

ed growth rates of other providers in the U.S.-traded group. Through the first nine months, Flextronics had already recorded a healthy increase of 25.2%, but in Q4 the company will enjoy a boost. That's because revenue from its **Solectron** acquisition, which closed on Oct. 1, will kick in. Based on Q4 sales guidance of about $8.5 billion, Flextronics would see a Q4 growth rate of around 53% quarter to quarter.

The only other provider with an estimated 2007 growth rate in double digits, and low double figures at that, is **Jabil Circuit**. A third provider, **Plexus**, is projected to finish the calendar year with single-digit growth. For the rest, *MMI's* estimates paint a revenue picture of darker hues. **Benchmark Electronics'** sales for 2007 will be essentially flat, according to the estimates, while both **Celestica** and **Sanmina-SCI** will experience sales declines.

Still, sequential improvements in non-GAAP EPS are in store if Q4 guidance proves accurate. In half the cases – Benchmark, Jabil, and Plexus – the low end of Q4 guidance is above non-GAAP EPS for Q3 (see table). Thus, if these providers meet expectations anywhere in the guidance range, they will have increased non-GAAP EPS sequentially in Q4. As for Flextronics, the company concurred with a consensus estimate of around $0.26, which if achieved would also mean an EPS gain from the prior quarter. For these four companies, Q4 guidance implies sequential increases in non-GAAP EPS.

News

FIH To Build Another Plant in S. China

Foxconn International Holdings (FIH)**,** the majority-owned handset subsidiary of **Hon Hai Precision Industry** (Tu-Cheng, Taiwan), intends to spend $500 million or more on a new plant at Huizhou in Guangdong Province of Southern China, according various media reports.

Reuters reported that FIH would like to bring in more than 10,000 workers next year to staff the facility, expected to start up in Q3 2008. An FIH spokesman told *Bloomberg* that the Huizhou factory may end up being bigger than FIH's Shenzhen plant, the company's largest operation. According to *Reuters*, the Shenzhen operation is currently running at full load.

Takes stake in component maker

FIH has agreed to buy $12.8 million in new shares of **Diabell**, a South Korean manufacturer of handset components. News services reported that the purchase will amount to a 20% interest in Diabell.

According to FIH, this investment will enhance its technical capabilities in the design and manufacturer of critical handset components. Among the components produced by Diabell are hinges and window lenses.

*More investment in China…*This month, Hon Hai announced a series of factory investments in China totaling $267 million spread among 12 activities in eight locations. One of these investments, $33 million in a handset operation, is going into Taiyuan,

Q3 and Nine-Month 2007 GAAP Results for Six Smaller EMS Providers, U.S.-Traded (M$ or %)																	
Company (in order of 9-mo. sales)	Q3 '07 sales	Q2 '07 sales	Qtr.-qtr. chg.	Q3 '06 sales	Yr.-yr. chg.	Q3 '07 gross marg.	Q3 '06 gross marg.	Q3 '07 oper. marg.	Q3 '06 oper. marg.	Q3 '07 net inc.	Q2 '07 net inc.	Q3 '06 net inc.	Q1-3 '07 sales	Q1-3 '06 sales	Yr.-yr. chg.	Q1-3 '07 net inc.	Q1-3 '06 net inc.
SMTC	54.0	66.1	-18.3	65.7	-17.8	6.3	9.0	0.3	6.4	(1.2)	0.1	6.1	189.6	186.7	1.6	1.7	8.3
LaBarge	59.2	64.9	-8.8	49.9	18.6	19.3	21.4	7.4	9.4	2.5	2.9	2.4	183.7	152.2	20.7	8.2	7.4
Suntron	52.5	64.2	-18.2	70.6	-25.6	7.6	5.7	0.4	-3.7	(0.4)	0.3	(3.7)	181.9	251.5	-27.7	(1.8)	(6.2)
Sparton	58.9	51.0	15.5	48.3	21.9	2.7	1.5	-3.6	-7.2	(1.4)	(1.6)	(2.5)	157.6	144.1	9.4	(5.3)	(1.3)
Key Tronic	44.6	49.2	-9.3	55.5	-19.6	7.0	9.5	1.1	3.2	0.2	2.7	1.4	141.0	153.6	-8.2	3.6	9.4
Nortech	29.6	31.1	-4.8	25.3	17.0	13.9	11.9	3.4	2.6	0.4	0.4	0.3	88.8	77.5	14.6	1.1	0.9
Total/avg.	**298.8**	**326.5**	**-8.5**	**315.3**	**-5.2**	**9.2**	**9.4**	**1.4**	**1.7**	**0.1**	**4.8**	**4.0**	**942.6**	**965.6**	**-2.4**	**7.5**	**18.5**

where reportedly FIH is building a new plant….**Cal-Comp Electronics** (Bangkok, Thailand) will invest around $10 million in Suzhou to expand production capacity for computer peripheral products. The provider plans to complete the project this year. Also, Cal-Comp has earmarked about $15 million for Wujiang to gain more capacity for peripheral and telecom products. Completion is expected before Q3 2008….EMS provider **GPC Electronics**, which currently operates in Christchurch, New Zealand, and Sydney, Australia, is setting up a new factory in the Shenzhen area. GPC expects that the factory will be ready to ship volume production by March 2008. The new operation will be co-located with facilities of a sister company.

*Expanding in Malaysia…*Hon Hai is not known for manufacturing in Malaysia, but it does have an EMS subsidiary there called **P.I.E. Industrial Bhd**. In Prai, Malaysia, P.I.E. is revamping a 160,000-ft^2 facility, which should be operational in Q3 2008, as reported in an article published on a Malaysian website, *The Star Online*. The new plant will be the company's third in Malaysia.

*New business…***Edgeware** (Stockholm, Sweden) has selected **Flextronics** (Singapore) to produce Edgeware's IPTV server for on-demand TV. Flextronics will supply the customer from its Special Business Solutions site in Karlskrona, Sweden.….Two Irish news sources reported that **Celestica** (Toronto, Canada) intends to expand its Galway, Ireland, facility to manufacture fuel cell power packs for **Medis Technologies** (New York, NY). In this facility, Celestica helped develop an automated production line for the power packs. The line recently passed initial production inspection by **Underwriters Laboratories**….**Sanmina-SCI** (San Jose, CA) will manufacture amplified ZigBee modules in Gunzenhausen, Germany, for **MeshNetics**….The U.S. Department of Defense has awarded **Sypris Electronics** (Tampa, FL) a four-year contract valued at up to $125 million for production of cryptocards....**LaBarge** (St. Louis, MO) has received contracts of about $3 million from **Kaman Aerospace** to provide cockpit wiring harnesses for the Black Hawk helicopter program. Also, LaBarge has landed a $2.2-million contract from **Northrop Grumman** for continued production of an electronic chassis used in the fire control radar of the F-16 fighter.

*European cooperation…***NOTE** (Danderyd, Sweden) has entered into an agreement to set up a 50-50 joint venture with Polish EMS provider **Fideltronik**. The joint venture, which will be based at Fideltronik's Krakow plant, will give NOTE access to additional production capacity in Poland. About 220 people will work in this venture….**EN ElectronicNetwork**, a German EMS provider, and **NewTec**, a German developer of hardware and software, intend to form an alliance. The pact will allow EN to offer its customers a high level of integrated electronic development, while NewTec customers gain a direct link to electronic production.

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